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TAGS: [PGOV](#) [PREL](#) [EAIR](#) [EINV](#) [EFIN](#) [RU](#) [HU](#)
SUBJECT: MALEV AND THE BUDAPEST AIRPORT: BETTING ON FUTURE
SUCCESS

REF: BUDAPEST 281

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Classified By: Acting P/E Counselor Jon Martinson, reasons 1.4 (b and d
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[11](#). (C) Summary: Malev focuses on strengthening its regional market, hiring a new Chief Executive Officer (CEO) and adding flights to Romania and Russia. Budapest Airport is optimistic about the future, and is embarking on several development projects, but needs a strong Malev to be successful. Malev recently posted a USD \$53.5 million loss for 2008. While Vnesheconombank (VEB) decides whether or not to offer another 10 million euro in financing to Malev, AirBridge may quietly be looking for a buyer.

NEW CEO, NEW PLANES, NEW ROUTES

[12](#). (U) On April 16, Hungarian airlines (Malev) introduced its new CEO, Martin Gauss. His appointment was strongly supported by Russia's VEB, which owns 49 percent of AirBridge shares and finances the other 51 percent (reftel).

[13](#). (SBU) A forty-year-old Boeing 737 pilot, Gauss has experience in leading airlines out bankruptcy, and was working as a consultant for Malev for the past few months. From 2003 to 2006, he served as a managing director for the financially troubled Deutsche BA, a former subsidiary of British Airways. During his tenure, he helped the airline turn a profit before it was sold to AirBerlin. In 2007, Gauss served as Chairman of Cirrus Airlines, a German regional carrier, before leaving to operate his own air industry consulting company in 2008.

[14](#). (U) Malev's survival strategy is to focus on shorter and more frequent flights. Last summer Malev canceled their only trans-Atlantic flight, Budapest to New York. On June 2, the third of four Bombardier (Canada) Q400 planes Malev plans to purchase arrived at Budapest Airport. The 70-passenger aircraft uses 30 percent less fuel than similar sized aircraft, helping to optimize Malev's regional services. Further expanding on the short and medium-haul routes, in April, Malev increased destinations in Romania to five -- Bucharest, Timisoara, Tirgu Mures, Cluj-Napoca and Iasi. Additionally, Malev added St. Petersburg and Amman, Jordan.

A HEALTHY MALEV IS CRITICAL TO BUDAPEST AIRPORT EXPANSION

[15](#). (SBU) On May 4, Budapest Airport's Chief Operations

Officer Gabor Somogyi-Toth, and Advisor to the CEO Johan Merten, described the details their expansion plans to Post. The Budapest Airport (BA) was partially privatized in 2005. Since 2007, HOCHTIEF AirPort (Germany) has led a private consortium with 75 percent of shares minus one vote with the GOH owning the remaining 25 percent plus one vote.

16. (U) According to BA executives, BA will invest 261 million euro in expanding and modernizing the airport in preparation for future growth over the next three years. They plan to double the annual passenger capacity to 15 million and increase cargo capacity to 132,000 tons per year. BA's goal is to position itself as the regional hub airport of choice and as a gateway between Asia and western Europe.

17. (SBU) Development started earlier this year as BA extended the apron area in front of terminal two by 76,000 square meters. By 2010, three additional major projects will be completed. First, a 40,000 square meter central terminal and commercial area called SkyCourt will connect terminal 2A to terminal 2B. Second, terminal two will be restructured into a three-story terminal to accommodate large and smaller aircraft, as well as Schengen and non-Schengen travelers. Third, the Cargo City project will triple warehouse capacity to 30,000 square meters and add 8,000 square meters of office space. Long-term plans include a 225 room hotel with conference facilities, a commercial park and a multi-story parking lot.

18. (SBU) BA executives emphasized that, "A strong Malev is the key to BA's ambitions for regional hub supremacy." They seemed optimistic about the new Malev CEO and noted that Gauss' appointment was, "a step in the right direction." Demonstrating interdependence, in May, Malev and BA launched a Slovakian promotional campaign which includes parking

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discounts and shuttle bus service from Bratislava and Kosice, Slovakia, to the Budapest airport.

NOT YET OUT OF THE WOODS -- FINANCIAL TROUBLES CONTINUE

19. (SBU) On April 19, the State privatization agency (MNV) requested AirBridge pay the remaining 28 million euro bank guarantee from the original purchase. During the privatization negotiations in 2007, AirBridge provided a loan repayment bank guarantee of 32 million euro that could be exercised by MNV. When the company failed to meet some of its financial obligations, MNV drew 4 million euro of the bank guarantee in February. In response, Malev was forced to sell three of its four Bombardier CRJ200 planes as collateral, and offered the MNV an option to purchase a stake in the Malev Ground Handling company. Although VEB stated it will transfer the complete 32 million euro guarantee to MNV, the bank appears to be negotiating the claim away in exchange for it assuring Malev's long-term financing.

110. (SBU) On May 26, Malev announced that VEB offered another 10 million euro, in addition to the 13.6 million euro it provided in March (reftel). VEB then postponed the offer during the general assembly meeting on June 1. Additionally, Malev posted a USD \$53.5 million loss for 2008, less than the USD \$73.5 million loss in 2007.

111. (C) Government officials see Malev as a liability. On May 14, the Minister of Energy and Transportation, Peter Honig, told the Charge that he is not happy with the way privatization happened. Minister Honig was Malev's Chairman from 2005 to 2007, prior to the airline's privatization. He stated that, "the government may have to spend more money to ensure Malev's survival. Malev needs to be part of a network to be successful." He hopes that the new ownership and leadership can boost demand. On May 27, new Minister of Economy Istvan Varga told the Charge that that he believes

Malev's owner, AirBridge is looking for a buyer.

¶12. (C) Comment: Recent changes at Malev, including the appointment of a new CEO and the focus on regional routes, are helping improve Malev's situation. As Economy Minister Varga told the Charge, "if it weren't for its government debt, Malev would almost be profitable--which is something it couldn't say before." Budapest Airport owners, by embarking on major expansion projects that rely on a healthy and growing Malev, appear to be banking on the airline's future success. However, until Malev is able to resolve its current financial difficulties it is not clear how it will achieve that success. VEB may be holding off on investing another 10 million euro in Malev if it truly is looking for a buyer.
Levine